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OFFICIAL ESTIMATE OF REVENUES FOR FY
1993/94

STATE OF SOUTH CAROLINA

Board of Economic Advisors

S. C. STATE ARCHIVE

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STATE DOCUMENTS



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To: South Carolina Budget and Control Board

From: Harry W. Miley, Jr.

Subject: Official Estimate of Revenues for Fiscal Year 1993-94

The Board of Economic Advisors (BEA) submits its official estimate of General Fund Revenues for Fiscal Year 1993-94.

Because of the overhang of the large federal deficit, heavy consumer debt, and tight credit conditions, the BEA does not expect the current economic recovery to be as robust as those from previous recessions. The BEA expects the national economy to continue to recover slowly this fiscal year at 1.7 percent and to perform slightly better in Fiscal Year 1993-94 at 2.1 percent.

The South Carolina economy is expected to be sluggish the balance of FY 1992-93. Except for a small improvement in housing construction and a little longer workweek in textiles, there has been little indication that the State's economy has started a sustained recovery. The forecast assumes that there will be some job growth from the lows hit last spring, but on an annual average, employment in South Carolina in FY 1992-93 will only recover to its average level in FY 1991-92. Income is expected to grow by 3.0 percent or less in FY 1992-93.

Revenue results for the first four months of Fiscal Year 1992-93 do not provide a basis for revising the current estimate for Fiscal Year 1992-93. Although there are individual sources that are running a little ahead or behind the plan, the sum of General Fund Revenues is almost exactly on plan.

Some pickup in the State's economy is forecast for Fiscal Year 1993-94. New investments moving to the State will begin to materialize. The textile and chemical industries are expected to recover because of rising demand for textiles, both domestically and in Canada and Mexico. The State's construction sector is expected to recover modestly from its devastation experienced over the last two years. Other sectors of the State will begin to recover. On balance, the forecast assumes income growth of 5.0 percent during Fiscal Year 1993-94.

The Individual Income Tax is forecasted to grow about the same as income at 5 percent in Fiscal Year 1993-94. The Sales Tax is forecasted to grow less than income at 3.5 percent because consumers are still paying down debt. The Corporate Income Tax is forecasted to remain flat.

The balance of revenue sources will be very weak. The fixed rate taxes which are based on consumption, such as alcoholic liquors, beer, wine, cigarettes, soft drinks will grow hardly any.

Although Sales and Individual Income Taxes are expected to

grow somewhat next year, revenues in Fiscal Year 1993-94 will be only \$15 million above those estimated for this year because of several extraordinary factors. A total of \$76.5 million in nonrecurring taxes will not reoccur. The Insurance Tax will be \$5.9 million less because of municipal credits and the transition to biennial licenses. Though the waste plant is assumed to remain open, volume is expected to decline because of the extraordinary high fee, reducing expected revenues by \$5.7 million. The Medicaid bed fee at \$9.8 million has been eliminated. The estimate for court fines was reduced \$2.0 million. Receipts from the Superb Fund are expected to end, reducing the estimate another \$11.5 million.

On balance, taking into account the weak sources, nonrecurring revenues, and selected reductions, General Fund Revenues are forecasted to grow only 0.4 percent over the Fiscal Year 1992-93 estimate to a level of \$3,581.8 million.

TABLE I
GENERAL FUND REVENUES
FISCAL YEARS 1992-93 AND 1993-94
(In Millions of Dollars)

	ACTUAL FY 1991-92	BEA 8/19/92 REVISED ESTIMATE FY 1992-93	BEA 11/9/92 ESTIMATE FY 1993-94
TOTAL GENERAL FUND (1)	3,341.6	3,567.2	3,581.8
Total Recurring Revenue (1)	3,327.0	3,444.2	3,533.2
Sales Tax (1)	1,166.0	1,207.0	1,249.2
Individual Income Tax	1,410.9	1,470.3	1,543.8
Corporation Income Tax	132.4	139.7	139.6
All Other	572.6	576.0	549.2
Miscellaneous Sources	45.2	51.2	51.4
Total Nonrecurring Revenue	14.6	123.0	48.6
Education Improvement Fund	294.223	301.750*	312.300 *
Interest on Education Improvement Fund	0.895	0.525	0.525
TOTAL	295.118	302.275	312.825
		<u>RATES OF CHANGE**</u>	
TOTAL GENERAL FUND		3.4%	0.4%
Total Recurring Revenue		3.5	2.6
Sales Tax		3.5	3.5
Individual Income Tax		4.2	5.0
Corporation Income Tax		5.5	-0.1
All Other		0.6	-4.6
Miscellaneous Sources		13.4	0.4
Total Nonrecurring Revenue		743.7	-60.5
Education Improvement Fund		2.6	3.5
Interest on Education Improvement Fund		-41.3	0.0
TOTAL		2.4	3.5

(1) Net of Education Improvement Fund.

* One-fifth of total sales tax.

** Percent change based on unrounded figures.

Board of Economic Advisors
November 16, 1992

TABLE II

STATE OF SOUTH CAROLINA
TOTAL BUDGETARY GENERAL FUND
QUARTERLY ESTIMATES
Fiscal Years 1992-93 and 1993-94
(In Millions of Dollars)

	FY 1992-93 -----	FY 1993-94 -----
FIRST QUARTER	943.8 *	919.2
SECOND QUARTER	1,818.8	1,872.3
THIRD QUARTER	2,589.3	2,629.5
FOURTH QUARTER	3,567.2	3,581.8

PERCENT OF TOTAL REVENUES
COLLECTION BY QUARTER

	FY 1992-93 -----	FY 1993-94 -----
FIRST QUARTER	26.5 **	25.7
SECOND QUARTER	24.5	26.6
THIRD QUARTER	21.6	21.1
FOURTH QUARTER	27.4	26.6

*: Actual.

**: Actual quarterly data as percent of total estimate.

Note: Tax collections for June sales accrue in the month of June.
These estimates represent a cash basis distribution.

Board of Economic Advisors
November 16, 1992

REVENUE FORECASTING PROCEDURES
BOARD OF ECONOMIC ADVISORS
FISCAL YEARS 1993 and 1994

The procedures and methodology of the Board of Economic Advisors in the preparation of the revenue forecast for Fiscal Year 1993-94 as of November 9, 1992 involved three major stages: 1) preparation of a detailed report providing the economic and revenue background and setting at the national and State levels for the revenue forecasts; 2) interpreting recent and historical revenue relationships; and 3) interacting with officials of other states with responsibility for revenue forecasting.

The Board members consulted as in the past with business and financial experts and professional economists for economic intelligence gathering. This included a meeting held on November 4, 1992 in Columbia with the National Advisory Council to the Board of Economic Advisors. Present at the meeting were: Bruce Yandle, Jr., Ph.D., Professor of Legal Studies and First Savings Bank Scholar, Clemson University; Ronald P. Wilder, Ph.D., Chairman, Department of Economics, University of South Carolina; and Frank L. Hefner, Ph.D., Assistant Professor and Research Economist, Division of Research, College of Business Administration, University of South Carolina. The Board also received advice on specific revenue adjustments from the State's revenue working group, which is comprised of staff from the Governor's Office, the S.C. Tax Commission, Senate Finance Committee, House Ways and Means Committee, Comptroller General's Office, State Treasurer's Office, and Budget Office.

The resources of the national forecasting groups by which the SCOPE model and other forecasts are driven, Data Resources, Inc., Evans Economics, Inc., and WEFA, Inc., were available weekly and monthly to Board members and staff. Materials from a variety of sources--international, national and State publications--were also made available to Board members and staff. In addition, there was Board interaction with numerous national and regional economists. Further, BEA staff met with leading industry representatives organized by Board member S. Hunter Howard, Jr. held at the Capitol City Club, November 5, 1992. Board members and staff continued discussions with leading economists and business and financial leaders prior to the release of this Report as well as with forecasters from South Carolina universities before the Board's November 9, 1992 meeting in Columbia.

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office). It was designed and operated as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity in the State relative to national economic activity with approximately 85 exogenous national variables provided by leading national forecasting services such as Data Resources, Inc., the WEFA Group, and Evans Economics, Inc.

The SCOPE core econometric model consists of 51 equations, of which 37 are stochastic* and 14 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 19 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income and unemployment.

Durable Manufacturing Employment

The durable manufacturing employment block consists of ten stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Wood Products, Stone, Clay and Glass, Primary and Fabricated Metal Products, Electrical and Nonelectrical Machinery and Other Durables which includes Furniture and Fixtures, Transportation, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of seven stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into eight stochastic equations: Mining, Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government and Federal Government. Employment growth in these industries is specified as functions of State population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 12 equations, one equation for the unemployment rate, one equation to adjust for nonresidents, and ten additional equations for each of the ten major components of personal income as published by the Bureau of Economic Analysis, U.S. Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

Revenues

The revenue section of the model is being structured to emphasize four major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales tax, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are two stochastic equations for taxable sales and refunds.

Equations of the model are continuously respecified to account for revisions in historical data. Reformulation and respecification of the model continues as an ongoing process. Forecasts from the SCOPE core and revenue models were made available for deliberations in the first official estimate of FY 1993-94 by the Board of Economic Advisors on November 9, 1992.

Board of Economic Advisors
November 16, 1992

SCOPE MODEL

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL

